



UNIVERSITY OF JOHANNESBURG
DEPARTMENT OF ACCOUNTANCY
AUDITING 200 (AUD2AB0) – 2017

FINAL ASSESSMENT OPPORTUNITY
15 NOVEMBER 2017

FIRST EXAMINERS:	MRS. C du PREEZ (HOHLS) MS. M MARCHBANK	READING TIME: 37,5 min WRITING TIME: 150 min
SECOND EXAMINERS:	MRS D MARÉ MRS I NEL	MARKS: 125 MARKS

INSTRUCTIONS:

1. This paper consists of **TEN (10)** pages. If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you.
2. Answer all the questions.
3. Answer each question on a **separate folio**.
4. Calculate the time that you should spend on each question by multiplying the number of marks for each question by **1,5** to determine the time, in minutes (**0,3** minutes per mark reading time and **1,2** minutes per mark writing time), available for each question. Adhere to these time constraints in order to finish the paper in the given time.
5. Delete **all** (even single open lines) open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will be marked as such and those pages will not be eligible for a remark.
6. No tippex or pencil may be used on your answer sheets. Pages on your answer sheets that contain pencil or tippex will be marked as such and will not be eligible for a remark.
7. All the examination regulations of UJ and the policy document for students of the Department of Accounting will apply during this assessment.
8. Keep this paper for your record purposes.
9. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.
10. Read questions carefully, if you need to provide explanations you should always use full sentences, refrain from simply naming facts.

QUESTION 1**61 MARKS**

Mafusi Ratili, Constance Magubane and Kiyansanbo Thukili are three best friends. They all three come from Aldinville, Kwa-Zulu Natal. They grew up in their rural hometown together and struggled through all the ups and downs of their schooling years and together managed to get each other through the hard work that was needed to obtain university exemption and finally complete their degrees so that they can be qualified Chartered Accountants. As luck would also have it, the three friends managed to complete their articles all at the same big four audit firm. Due to the fact that all three ladies have such a deep passion for auditing services, the three friends decided that since they have completed their articles, they would open their own audit firm and be the first all-female audit firm in South Africa. The name of the audit firm is RMT (Pty) Ltd (hereafter referred to as RMT). The firm was established on 10th March 2017 and the details of the audit firm are as follows:

Audit Partner and shareholder	Shares	Qualifications	Notes
Mafusi Ratili	33.3	CA(SA), RA	1
Constance Magubane	33.3	B.Com (Honours) CTA, RA	2
Kiyansanbo Thukili	33.3	CA(SA), RA a non-resident of South Africa (Swazi citizen)	3

Notes:

1. Passed the APC in February 2017 and all the required prescribed fees have been paid to both SAICA and IRBA.
2. Did not pass the APC in February 2017, will be re-writing the board examination in November 2017 and the required prescribed fees have been paid to both SAICA and IRBA.
3. Passed the APC in February 2017 with distinction and all the required prescribed fees have been paid to both SAICA and IRBA.

Since starting the audit firm, business has been really good for the three friends. They have been approached by many organisations for quotes for audit services. So far things are going exactly as planned, their audit firm's name is spreading quickly in the industry. Although all three friends completed their articles at the same audit firm, they were not in the same sectors and as such were exposed to different areas of specialisms. For this reason they believe that they are able to provide a wide range of audit services. Below is a summary of each audit partner's areas of expertise:

Audit Partner and shareholder	Areas of specialisms
Mafusi Ratili	Automotive, Chemicals and Mining Industries
Constance Magubane	Healthcare, Health Sciences, Medical Schemes
Kiyansanbo Thukili	Financial services, Bank & Capital Markets, Financial Instruments, Food, Drink and Consumer Goods

Recently, RMT was approached by a company in the Public Sector to complete their 30 June 2017 audit. The company, Ama-Glug-Glug Limited, (hereafter AGG) which forms part of the Energy Sector, is a listed company on the Johannesburg Stock Exchange (JSE) and dismissed their previous auditors as they did not agree with the treatment that the auditors had proposed with respect to the financial instruments on their statement of financial position. AGG has also offered to pay R1 500 000 for the audit services if RMT can have their audit done by the 30th November 2017 latest. This will be the biggest audit fee to date for RMT and if they can secure this client, it will only open up doors to more lucrative audit fees.

Constance called Mafusi and Kiyansambo to tell them about this prospective new client and that they needed to reply to the client ASAP otherwise the client will go seek another auditor. Both Mafusi and Kiyansambo are at other audit clients and said that if Constance is happy with the client and has assessed them, they give their blessings in the acceptance of the audit client as they also trust her professional judgement implicitly.

Constance is very excited as this will be the first time she gets to make such a decision as well as secure such a large audit fee. Constance decided that she will accept the client even though the following information was brought to her attention by her audit senior, about the management of the company: See extract of email on page 4:

EXTRACT OF EMAIL

From: Rade, Thoko

Sent: 10 November 2017 12:48

To: 'Constance – Audit Partner RMT' <constance@rmt.co.za>

Subject: RE: Pre-engagement research – AGG and planning matters

Dear Constance,

I hope that this email finds you well.

Please find below information that I have discovered:

CLIENT: AGG

- AGG is a company that is listed on the JSE.
- The CFO, Mr Zoto, is very autocratic and does not regard auditors very highly at all. He has been known to tell auditors that they do not know what they are doing.
- He never signs the engagement letter until the following year and although he agrees to pay the audit fee, the audit fee is only paid over 14 months after the audit has been completed.
- He has been known to threaten the auditors if they provide an audit report other than a “clean” report.
- AGG has been linked to some state capture reports that is currently circulating in the press.
- AGG is currently being sued by female staff members, as there are allegations of discrimination against female employees as he does not believe that they have enough “grey matter” between their ears to get the job done as well as their male counterparts.

STAFF REQUIREMENTS/RESOURCES

- The period of the audit requires at least three weeks of detailed audit field work.
- A team of 20 staff members will be needed, however, according to the planning schedule, there are only 11 staff members free during this time to work on this job, of which the majority are juniors as the more senior experienced clerks are on jobs with Mafusi and Kiyansambo.
- Out of all the industries we have audited, I was unable to find any evidence that we have ever audited an organisation from the Energy sector and none of the audit partners seem to have the exposure to this industry.

Many thanks,

Thoko Rade
3rd year audit clerk
RMT (Pty) Ltd

It was decided by Constance that Thoko would be the audit senior on the AGG audit. During the audit of the company the following findings were identified per working paper section:

Prepared by: TK	Date: 15 Nov 2017	A-100
Reviewed by:	Yearend: 30 June 2017	
Client: AGG		
SECTION: UNDERSTANDING THE BUSINESS		
Payroll		
Management receives bonuses that are linked to a gliding scale of earning of the company.		
Accounting function		
While doing the walk-throughs of how the accounting system works, I noted that there have been numerous errors in terms of the capturing of invoices as well as the recording of the accounting transactions and entries.		
During the year, AGG moved from ACCPAC accounting software to SAGE Online Accounting. The CFO refused to pay for staff to go on any training courses and the staff members have been using the accounting software via trial and error.		
There are two other entities that report to AGG. These companies are subsidiaries. Recently the financial controller accountant who had been with AGG for the past 15 years retired and has not yet been replaced. Juju Lethole was the only person that knew how to do the consolidations. The CFO has said that he will bring his cousin who is in Honours at the University of Johannesburg, to assist with this work.		
Recently there has been some fundamental changes in the energy industry regarding how to evaluate the inventory. The CFO does not agree with these changes as he says that it will make his changes of equity statement look bad. He instructed the accounting team to ignore these changes and to continue valuing these as they always have.		
Sales/Revenue		
AGG trades in Africa. All sales that are made, are done so in US dollars.		
Other		
The company is planning on listing on the New York stock exchange by 15 December 2017.		

Prepared by: TK	Date: 17 Nov 2017	S-101
Reviewed by:	Yearend: 30 June 2017	
Client: AGG		
SALES/REVENUE – FINDINGS		
The general ledger total of revenue amounted to R20 569 850		
The trial balance total of revenue amounted to R25 569 850		
The annual financial statements reflected an amount of R 28 569 850, this amount comprises of:		
Rental income R 3 000 000		
Sales R25 569 850		

Prepared by: TK	Date: 23 Nov 2017	P-105
Reviewed by:	Yearend: 30 June 2017	
Client: AGG		
PURCHASES / COST OF SALES – FINDINGS		
<p>During the detailed testing, the following was noted:</p> <ul style="list-style-type: none">• An amount of R650 000 was paid directly 12 times to a beneficiary by the name of E Energy.• After enquiry with the payroll accountant, it was discovered that these payments were made directly to the CFO's wife's bank account. According to the accountant the wife is not really an engineer but a school teacher and never comes into the office.• The payroll accountant stated that these amounts were "authorised" by the CFO and the payroll accountant was told to pay directly on the invoices that were supplied by the CFO for the payments each month. The payroll accountant provided me with 12 invoices each made out to AGG for energy consulting fees which the payroll accountant received from the CFO.• I (TK) proceeded to discuss this with the CFO and he sent me out of his office saying that there is nothing wrong with the transactions as his wife is an engineer and he asked her for some advice at times. He also went on to say that the previous auditors never ever asked as many questions as what I am, and if I keep asking so many questions, he will report me to Constance, the audit partner for harassment.		

Prepared by: TK	Date: 20 Nov 2017	R-100
Reviewed by:	Yearend: 30 June 2017	
Client: AGG		
RELATED PARTIES		
<p>After completing the related party section, it was noticed that there was an entity that has not been audited. I enquired with the CFO regarding the information about the company and the following was provided. The CFO disagreed with me, when I said that this company still needs to be audited.</p> <ul style="list-style-type: none">• Uphethiloli Transport (Pty) Ltd is a transport company. It has a 30 June 2017 financial year end. The annual financial statements were independently compiled. The company delivers the petrol and gases for AGG to their respective customers.• The turnover for 2017 amounts to R11,985,326. The average number of employees of the company during the financial year amounts to 1 598.• The total third party liability of the company, at the financial year end amounts to R1,895,632.• The total number of individuals with a direct or indirect financial interest in the company amounts to 1 450.• During the 2017 financial year end, the company held assets in a fiduciary capacity to the value of R15 000 000 and all the shareholders of the company also not all directors of the company.		

QUESTION 2

61 MARKS

You are currently in your second year of articles at the medium sized audit firm Bongi and Partners Inc (hereafter B&P) and have been assigned to the audit of Khulani (Pty) Ltd. Their year-end is 30 November 2017. The owners of the company have decided against listing of the company as they want to keep the business in the family (they have quite a big family). The only reason they are being audited this year, is due to the requirements as set out in the Companies Act pertaining to the Public Interest Score. The owner feels that audits are complete waste of time and energy. Since Khulani are situated in the heart of Limpopo and your company is entering a very busy time they could only send you and another second year to do the audit. You also have to review each other's work before it goes to the manager for review.

While reviewing the prior year's audit file and considering the information you have obtained so far from your discussions with your seniors and other staff members, you noted the following information:

- Khulani is an adventure company, providing different adventures to people in South Africa. Their head office is in Limpopo, but they have operations in different provinces of South Africa.
- Khulani provide adventures to individuals, as well as team building exercises on request.
- Kevin Campbell CA(SA), the financial director of Khulani since 2005 resigned on 30 June 2017. He was replaced from 1 July 2017 by Henry Hendricks, a recently qualified CA(SA). A key function of the financial director is to prepare Khulani annual financial statements and ensure the reasonableness thereof.
- During the 2017 financial year, in order to increase staff morale, a loan scheme was implemented whereby all persons on the payroll of Khulani could obtain loans at an interest rate of 2,55% below the prime overdraft rate. From the system description it was noted that controls over the collection of these loans are inadequate. At year-end, the balance on the staff loan account was R 250 000.
- A number of lawsuits have been instituted against Khulani by tourists claiming to have suffered severe injuries from using the company's facilities. All these cases are being defended, as the managing director of Khulani contends that failure to do so may result in an "avalanche of further claims".
- Khulani operates all of its attractions in terms of concessions granted by the relevant provincial or national government departments. These concessions are generally granted for a five year period. Three of the six concessions operated by Khulani are up for renewal at the end of December 2017. Due to the fact that there have been a number of accidents that have occurred during the past year, there is concern that these concessions will not be re-awarded to Khulani.

- Khulani became the holding company of Malambada four years ago, and since Malambada has yielded returns of only between 3% and 5% over the past four years, the board of directors were replaced early in the 2017 financial year as directors who are “less risk-averse and more dynamic”.
- The new board launched a number of new initiatives, including the charter of the *Sea Princess*, a luxury passengership, from 1 January 2018 to 31 January 2018 for a fixed amount of R 13 000 000. At the time of entering into this deal, the board estimated that a profit of approximately R 5 000 000 would be attainable. Having signed the contract, Malambada started selling packages for all the cabins on the chartered ship. Sales are, however, below expectations and the situation worsened towards the end of the financial year due to a result of a newspaper article stating that there is a renewed outbreak of bird flu worldwide.
- Due to concerns of Malambada not being able to settle the loan, the board of directors applied for a loan of R 10 000 000 from Khulani.
- All financial information and other records are maintained on an integrated computerised information system, run on an Oracle platform. This system was historically run by the company’s in-house IT department, but in March 2017 the board resolved to outsource the IT function to Best IT Providers (Pty) Ltd.
- Shortly after the announcement, most of the in-house IT department resigned, after the Service Level Agreement has been signed, Khulani then proceeded to retrench the remainder of the IT department staff.

After going through all the information, your colleague provided you with the workpaper on which he has calculated materiality for the current year.

Prepared by: V Ken	Date: 5 December 2017	B-03
Reviewed by: S Tudent	Yearend: 30 November 2017	
Client: Khulani		

Objective:
 The objective of this working paper is to calculate the planning materiality to be used during the audit of Khulani.

- It appears as though audit risk is high, therefore the high range of materiality will be used.
- As we did not received only received financial information for the first 11 months of the financial year, the figures will be used as they are.

	Financial information	Parameters	Low Range	High Range
Turnover	1 005 352	½% - 1%		
Gross Profit	795 351	1% - 2%		
Net Profit	495 346	5% - 10%		
Total Assets	3 542 682	1% - 2%		
Equity	1 352 652	2% - 5%		

Conclusion:
 - Based on the table given above, the materiality to be used is R 795 351.

While on the audit your long-time friend from school asked you to do him a favour and provide him assistance with two issues. Please see the email below:

To: S Tudent <student@BongiandPartners.co.za>

From: Thato@gmail.com

Date: 4 December 2017

Subject: Help needed.

Dear Bongi,

It is so nice to hear you are back in town, we must definitely get together before you go back to the city to catch up a bit. So much has changed around here since you left seven years ago.

I've started my own business and it is going really great. My business has grown so much that I'm employing 5 people at the moment. I've even decided to get with the times and install a computer system for my employees. But now I need your help please.

I know we come a long way and I am even willing to pay you for your time, I'm willing to pay you R 5 000. I need you to please help me with the following:

1. Even though I have implemented the new system, and all is going well, I'm not sure whether I have all the required controls in place. Will you please go through the attachment in the email and give me your thoughts along with any recommendations you might have.
2. I have obtained an opinion from my current auditor regarding the accounting treatment and value of a future investment I intend to make, but I am not happy with his advice/conclusion. Please will you have a look at it and let me know what you think. I just need you to trust me on this one, I cannot give you the name of the auditor or his report. I can only give you the information that I gave him.

Hope to see you soon for a catch up...

Friends forever

Thato.

Attachment to email...

Computer system in use by Tshokozile is one where all the transactions update as they are entered into the system. Once a transaction is initiated, it updates all the other related accounts automatically. Staff can access the system from anywhere, as long as they are connected online to the server.

As the system is developed in-house, all documentation has been saved and is properly filed to be used by the staff as a guide when needed. The IT department consists of staff members and to prevent bottlenecks from happening, all changes requested are processed as they come in, irrespective of whether it is requested in writing, on the required stationary or verbally. The changes are processed on a first come first served bases. Before that changes are release to the system, they are tested thoroughly and users are trained on the changes done.

Since there is so little staff and they are a close knit family, it has been decided not to lock the computers with any passwords. There are passwords required for any payments made above R 50 000. Any payments below that amount, can be made by anyone as there is no authorisation required. When at the office there is a policy to abide by, where all computers have to be connected via a cable to a desk at all times.

Backups are made at the end of each day and are stored in a fireproof safe in the building next door. Fire extinguishers are at every door but there are water pipes running next to the server as that is the only place that was available to put the server.

Since Tshokozile is a small company and not listed on the JSE, it has been deemed that there cannot be a significant threat ever to them and thus there is not disaster recovery plan in action.